

**Committee on Small Business and Entrepreneurship
United States Senate**

**"The President's FY 2006 Budget Request for the SBA"
February 17, 2005**

**Oral Statement
of
Eddie Tuvin
First Vice President
Community South SBA Lending**

Thank you madam chairwoman, Ranking Member Kerry and other Senators – I am Eddie Tuvin, a first Vice President with Community South SBA Lending. Community South is an active SBA lender, with lending operations all along the eastern seaboard and a member of the National Association of Government Guaranteed Lenders, Inc. (NAGGL), a trade association for lenders and other participants who make approximately 80% of the Small Business Administration (SBA) section 7(a) loans. Commonly called SBA's "flagship" program, the 7(a) program has proven to be an excellent public/private sector partnership. Over the last decade, the SBA has approved roughly 500,000 loans for approximately \$100 billion. We thank the Committee for the opportunity to provide NAGGL's written testimony on the SBA FY 2006 budget request and other current issues facing the SBA 7(a) program community.

One Year Later

Last year at this time, NAGGL representatives testified about the many challenges facing the 7(a) program. Thanks to the efforts of the Small Business Committees and SBA Officials, that problem was resolved and FY 2004 lending set records for both numbers and dollars loaned. FY 2005 is also off to a record pace, with almost \$3.6 billion lent in the first fiscal quarter. As part of the compromise worked out at the end of the 108th Congress, the 7(a) program received \$16 billion in lending authority for FY 2005, which should be sufficient to meet the net lending demands of small businesses.

FY 2006 Budget

FY 2006 Loan Demand

The Administration has requested a \$16.5 billion program level in FY 2006. FY 2004 usage was approximately \$13.5 billion, and some forecast that all \$16 billion of available lending authority will be used this fiscal year. Given the growth rate in the program, NAGGL requests that this Committee support at least a \$17 billion program for FY 2006. A \$17 billion program would match the authorization level passed in the Omnibus Appropriation bill in December 2004, and would lessen the risk of future program caps or restrictions.

More Fees

From the start of fiscal year 2004 to the start of fiscal year 2006, lender fees will have increased 116% if the increase proposed in the FY 2006 budget is put into effect. Although the latest increase would be within the compromise worked out in the 108th Congress, the trend of higher and higher fees must be reversed.

It is disturbing that the 7(a) program faces further fee increases considering that the compromise deal establishing fee levels was signed into law just 2 short months ago. In addition, the Administration reports, in table 8 of the Federal Credit Supplement to the FY 2006 Budget (on page 54), that the subsidy rate established for FY 2004 was excessive. The original subsidy rate for FY 2004 was 0.78% but this has now been re-estimated and reduced to 0.24%. Thus the Administration is now recognizing that the fee increases which they demanded at the start of FY 2005 be imposed upon lenders and borrowers to lower the subsidy rate to zero should have actually lowered the rate to a substantially negative number. We believe that given the downward subsidy re-estimate for FY 2004, the subsidy rate should have actually declined in FY 2006, resulting in a lowering of the lender fee.

NAGGL encourages this Committee to ask the Administration for a thorough explanation of the changes made in the subsidy and re-estimate models.

Secondary Market Fee

The Administration also is requesting authority to charge lenders a fee for loans sold in the secondary market. In the FY 2006 budget, in Table 6 on page 23, the Administration does not provide any income from a proposed fee. Thus the proposed fee must be zero and is unnecessary.

NAGGL is opposed to granting the authority to impose secondary market fees for several reasons. First, the SBA has not documented a need for such a fee. The secondary market and the master reserve fund have operated smoothly and efficiently for some 20 years. What variables has the Administration used to calculate a subsidy rate for this program? The Administration took some administrative actions last year. What impact did those changes have on the subsidy rate? What other administrative changes could be made so that charging an additional fee could be avoided? Until these and other questions have been answered and there has been a full disclosure of the subsidy rate calculation, NAGGL opposes granting SBA the authority to charge this additional fee.

National PLP Authority

As part of the compromise reached in December, a national Preferred Lenders Program or PLP should have been included in the legislation. Today, lenders who lend in multiple districts spend an inordinate amount of resources dealing with the multitude of district offices in establishing or renewing their PLP status. The new program would have established guidelines for the SBA to grant national PLP status to those lenders meeting the benchmarks. Unfortunately, due to a clerical error, the provisions were not included in the final legislative package, which was enacted as Division K of the Omnibus Appropriations Act (P.L 108-447). NAGGL requests that this provision be included in the near future in any appropriate legislative package, particularly in any technical corrections bill, which SBA has said it will submit.

Piggyback Restriction Still In Place

A lender generally utilizes the 7(a) program because an applicant has a credit deficiency or needs a longer term loan than could be provided without the 7(a) program. In other instances an applicant has a need that is larger than the maximum loan size allowed under the 7(a) program. To accommodate this higher financing need, a lender historically has utilized a piggyback structure or a combination loan to meet the borrowers' financing needs.

NAGGL has met with Administration officials, and subsequently we submitted a proposal to them to reinstate piggyback lending. We are awaiting a response.

There is currently a gap that was created by the removal of the piggyback loan whereby conventional financing fails to offer "reasonable financing on reasonable terms" to newer entrepreneurs or those businesspersons in specific niche markets that are "out of favor" with many conventional lenders. The ability of the 7(a) program to work in conjunction with the private sector to induce lenders to provide more capital to the market by utilizing a conventional first that sits on top of a 7(a) guaranteed second loan was one of the best examples of successful private/public partnerships toward creating small businesses, jobs and relieving areas in the lending markets where capital was not readily available. These businesses are the very foundation from which our future economy relies for growth. While the Administration has pointed out that the 7(a) program fulfills 95% of all loan requests, all of us here must recognize our mutual desire that the 95% will someday grow to the size of the "5%" and we are, as a result of not providing a reasonable solution for this need via piggyback, setting ourselves up for a day when those new 5% will find access to capital restrictive and possibly destructive to their plans for continued growth and/or ongoing operation. Perhaps we are building a bridge today and allowing vehicles to cross, but alas we have failed to complete the last section of that bridge so we watch as the vehicles come to a halt as they approach the edge or, worse, simply fall in. With the piggyback prohibition, many applicants have no solution to their need to find larger loan packages. We request that this Committee work with the Administration to reinstate the use of piggyback loans so that lenders again would have a vehicle to serve those small businesses that need larger loan packages.

Conclusion

In conclusion, NAGGL requests that this Committee:

1. Support at least a \$17 billion program for FY 2006;
2. Conduct a thorough review of the 7(a) credit subsidy model changes in the FY 2006 program estimate;
3. Support the reinstatement of piggyback or combination loans, through legislation if necessary;
4. Support the establishment of a National PLP Lender approval and renewal process through legislation; and
5. Oppose granting SBA the authority to levy an unneeded secondary market fee.

Thank you for the opportunity to testimony before the Committee.